

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 PA-01 PRS-01 FEA-01 ERDA-05 AID-05

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H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /094 W

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 6086

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E.O. 11652: N/A

TAGS: ENRG, IT

SUBJECT: OIL IMPORTS INTO ITALY

REF: STATE 49148

1. BEGIN UNCLASSIFIED. DESPITE OIL COMPANY HINTS THAT CRUDE IMPORTS WOULD BE REDUCED OR SUSPENDED IN THE ABSENCE OF GOI PRICE RELIEF, EMBASSY SEES NO RPT NO EVIDENCE THAT COMPANIES HAVE TAKEN ANY ACTION THUS FAR. THIS IS CONFIRMED BY INDUSTRY SOURCES CONSULTED BY THE EMBASSY. FUTURE COMPANY ACTIONS WILL UNDOUBTEDLY BE CONSIDERED IN VIEW OF RESULTS OF INTERMINISTERIAL PRICE COMMISSION (CIP) MEETING SCHEDULED FOR MARCH 2 WHICH WILL CONSIDER INCREASING MAXIMUM PRICE LEVELS FOR PETROLEUM PRODUCTS. END UNCLASSIFIED.

2. BACKGROUND: JANUARY 1976 LIRA DEVALUATION SHARPLY INCREASED COST OF IMPORTED CRUDE AND PRODUCTS, CAUSING OIL COMPANIES TO ASK FOR IMMEDIATE RELIEF (I.E., PRIOR TO MARCH 1 DEADLINE FOR NORMAL REVIEW) UNDER ESCAPE CLAUSE OF GOI RULES SETTING PETROLEUM CEILINGS. IN ABSENCE OF AFFIRMATIVE GOI ACTION TO INCREASE MAXIMUM PRICE CEILINGS, COMPANIES ANNOUNCED PUBLICLY THAT LOSSES SUSTAINED DUE TO LIRA DEVALUATION WOULD

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BE CUT BY REDUCING CRUDE OIL IMPORTS. COMPANIES PRIVATELY

INDICATED (A) WILLINGNESS TO AWAIT MARCH CIP DECISION BEFORE TAKING ACTION AND (B) BELIEF THAT GOI AWARE OF COMPANY PROBLEMS AND SERIOUSLY PREPARED TO GRANT AT LEAST PARTIAL PRICE RELIEF. EMBASSY HAS SOME INDICATIONS THAT PETROLEUM PRODUCT STOCKS ARE BEING HELD OFF MARKET WHERE POSSIBLE TO TAKE ADVANTAGE OF NEW PRICES WHICH ARE EXPECTED IMMINENTLY. IN ANY CASE, NO RPT NO PRODUCT SHORTAGES HAVE BEEN REPORTED.

3. CIP IS REPORTEDLY MEETING TODAY (MARCH 2) TO DECIDE MATTER OF PETROLEUM PRICE CEILINGS. INDUSTRY PRESS SOURCES BELIEVE THAT NEW PRICE CEILINGS WILL WORK OUT TO ABOUT 8000 LIRE/M.T., DIVIDED AMONG VARIOUS PRODUCTS: 35 LIRE/ LITER - GASOLINE; 12 LIRE/KILO - LPG/NAPHTHA; 5 LIRE KILO - LIGHT FUEL OIL (FOR TRANSPORT AND HEATING); AND 5 LIRE KILO FOR HEAVY FUEL OIL. MARKET SOFTNESS FOR FUEL OILS WILL MAKE IT DIFFICULT FOR COMPANIES TO RAISE THESE PRICE TO NEW CEILINGS.

4. COMMENT: IF THIS ESTIMATE CORRECT, COMPANIES ARE UNLIKELY TO BE SATISFIED. INCREASE IN CEILING WORKS OUT TO 12 PERCENT; LIRA DEVALUATION SINCE LAST PRICE CEILING INCREASE (11/21/75) 14 PERCENT. COMPANIES HAVE CHARGED THAT HIGHER OPERATING COSTS HAVE NOT RPT NOT BEEN TAKEN INTO ACCOUNT, AND THUS INCREASE SHOULD BE SUBSTANTIALLY HIGHER THAN FOR DEVALUATION ALONE. WHAT ACTION COMPANIES PLAN IN THE FACE OF THIS POSSIBLE SCENARIO IS DIFFICULT TO PREDICT. WE BELIEVE THAT COMPANIES WILL CONTINUE TO STREAMLINE OPERATIONS TO EXTENT POSSIBLE, AVOID FURTHER INVESTMENTS IN ITALIAN OPERATIONS AND GENERALLY SEEK TO LIMIT ITALIAN EXPOSURE. COMPANIES WILL IMPORT ONLY ENOUGH CRUDE OR PRODUCT TO MEET COMPANY DISTRIBUTION OBLIGATIONS AND BALANCE PRODUCT MIX. WE EXPECT THAT DIVESTITURE ACTIONS, AS VARIOUS COMPANIES HAVE THREATENED, ARE UNLIKELY IN ABSENCE OF POTENTIAL BUYERS. BEAUDRY

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